

# Commonwealth of Pennsylvania Public School Employees' Retirement System

**DATE:** May 24, 2011

**SUBJECT:** Investment Objectives and Guidelines Addenda

**TO:** Members of the Board

**FROM:** James H. Grossman, Jr., CPA, CFA  
Managing Director of External Public Markets, Risk & Compliance

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At the June Finance Committee meeting, we will ask the Committee to adopt the Investment Policy Statement, Objectives, and Guidelines (IPS), as revised, as well as the following fixed income addenda:

<u>Addendum</u>	<u>Addendum Title</u>
I	U.S. Core Plus Fixed Income Portfolios
K	U.S. High Yield Fixed Income Portfolios
K1	Mortgage and Asset Backed Securities Portfolios
L	Internally-Managed Treasury Inflation Protection Securities Portfolios
Q	Global Core Plus Fixed Income Portfolios
Q1	Emerging Markets Fixed Income Portfolios
Y	Internally-Managed Short-Term Investment Pool
Y1	LIBOR-Plus Short-Term Investment Pools

Internally-Managed Premium Assistance Program Portfolio

The most substantive change made to the above addenda was to eliminate the lower duration band versus the Index. Eliminating this will allow portfolio managers more latitude in reducing risks in their portfolio versus the Index, as they deem necessary to improve performance.

The more substantive changes to the IPS have been black lined for your convenience and are discussed below.

1. Added language to the Insurance section to provide more clarity regarding parent companies and to bring the Policy in line with the vast majority of our contracts.
2. Reversed the changes made in the March 10, 2011 Board meeting to the Asset Allocation and Policy Index Exhibits regarding the collapsing of U.S., Global and Emerging Markets Fixed Income asset classes into a single, Global Fixed, asset class. In the process, it was determined that a single benchmark of the Barclays Capital Global Aggregate GDP Weighted Bond Index for the newly created Global Fixed asset class would not represent an accurate view of staff's fixed income investment convictions. Specifically, the Global GDP benchmark allocates significantly less to U.S. fixed income than staff views appropriate when considering that benefit payments are in U.S. dollars. Wilshire and staff will continue to review the fixed income allocation structure, including the benchmarks, and will return in August with a more thorough recommendation regarding the fixed income asset class structure.

If you have any questions or comments, please contact me at 717-720-4703.